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DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES (INSURANCE) ON ITS FIRST SESSION

Held at the Palais des Nations, Geneva
from 1 to 5 February 1993

Addendum

Rapporteur: Mr. Masatoshi Sato (Japan)

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Chapter I

ESTABLISHMENT OF THE WORK PROGRAMME OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES: INSURANCE

(Agenda item 3)

(continued)

39. The representative of India said that one of the important objectives of State policy in India over the last two decades had been to ensure that the operation of the economic system did not result in the detrimental concentration of wealth. An evaluation of the progress achieved by the nationalized insurance sector showed that most of the objectives of nationalization had been largely achieved under the public enterprise system.

40. The Life Insurance Corporation of India had contributed enormously to the development of the housing sector. It also undertook a large number of social security schemes, as well as contributing enormous resources to various infrastructural sectors. As to the general insurance industry, the General Insurance Corporation of India and its subsidiaries rendered effective service by combining commercial and business goals with social responsibility.

41. The major objective of the reinsurance programme for the Indian insurance industry was to conserve foreign exchange by retaining within the country as much of the premium as possible, consistent with the risk-bearing capacity of the companies and the hazards and values involved. Despite all the progress achieved, the insurance industry had some clear weaknesses, including a low level of customer satisfaction, inadequate servicing of low-cost business, particularly in the rural areas, lack of adequate resources to increase socially oriented insurance, lack of market research and market surveys for product development and upgrading, and absence of a separate cadre for rural and informal sector insurance.

42. In order to improve the performance and efficiency of the insurance industry, exposure to competition could be considered. This also seemed necessary for the integration of the Indian economy into the world economy. However, ways had to be found to introduce changes progressively, and the Committee should discuss recommendations for the phased introduction of change. Approaches to reinsurance should bear in mind the balance-of-payments position of developing countries, and agricultural insurance also deserved

priority attention. Technical cooperation work could include strengthening supervisory authorities, providing guidelines for drafting amendments to laws and putting fundamental regulations in place.

43. The representative of Egypt stressed the importance of the insurance sector in the context of evolving new international economic relations. In the Egyptian economy, the sector had been developed in order to keep up with the overall development of the economic reform being pursued. The first phase had allowed for public and private capital to take part in the sector. Joint venture companies were allowed to transact in the free zone areas. The next phase would involve providing for minimum capital increase, personnel development and management improvement, elaboration of legislation ensuring protection of the national market through reinsurance, and updating of legislation based on the recent experiences of other countries. In agricultural insurance, Egypt would have to diversify from livestock to include crop insurance and try to benefit from the experience of others in that area.

44. The work programme of the Committee on Insurance should be compatible with the Committee's terms of reference, with due emphasis on paragraph 4. Taking into account levels of development and the need for gradual evolution towards increased liberalization, the programme might include studying ways and means of strengthening supervisory authorities and supervision measures in the insurance sector; considering developmental aspects in respect of which both the developed and developing countries should have clear commitments; and increasing transparency by facilitating the exchange of information in order to increase the level of transactions. Technical cooperation should be emphasized in the programme and might include: professional training for technical personnel in insurance; assistance for supervisory authorities in setting up and managing a more competitive market environment; adaptation of insurance regulations to the changes in the global economic system; and developing the ability of agricultural insurance to provide relief for natural disasters.

45. The representative of the Philippines said that, as regards agricultural insurance, the analysis and recommendations of the Group of Experts was awaited with much interest, as the Philippine economy, like that of many other developing countries, was largely dependent on agriculture. In view of the importance of insurance in rural economies the Philippine Crop Insurance

Corporation had been established 11 years previously. Livestock and poultry insurance had also been developed over the last 2 years and were run by a pool of 26 private and 2 government insurance companies. She described the developments and experiences in agricultural insurance in her country and expressed concern that the commercialization of crop insurance through a reduction in premium subsidies would make it inaccessible to many small farmers; alternative ways of reducing premium rates should be contemplated.

46. Concerning liberalization, the Philippines had recently lifted a ban on the establishment of new insurance companies, which were now subject to a tenfold increase in the minimum capital requirements for existing companies. Privatization was also an area of concern. A case-study could be undertaken by the secretariat to determine the impact of liberalization on consumers and insurance sectors in particular and the economy in general.

47. Due to the worldwide recession, large recent catastrophic losses and changing weather patterns, international reinsurance capacities had been reduced, rates had increased and terms and conditions had become difficult. The Committee should consider an in-depth study of the world's reinsurance capacity, as its contraction would have disastrous effects on the capacity of domestic insurance markets to provide catastrophic risk insurance in developing economies.

48. The representative of Algeria informed the Committee that his country was embarking on a process of privatization and liberalization. This process concerned not only insurance but also other sectors, including other services sectors. The transition from a monopolistic market to a market economy should be progressive. To achieve the transformation, it was important to adopt appropriate legislation and ensure adequate supervision in the field of insurance in order to safeguard the interests of the public. Technical assistance from the UNCTAD secretariat would be very much appreciated in this respect. Regarding agricultural insurance, it would be of interest to be informed of the experiences of other countries, in particular that of developed countries. The interrelationship between agricultural relief programmes and agricultural insurance as well as ways and means of structuring them, should also be analysed. With regard to the question of major risks, the incidence of such risks had increased and a number of countries were experiencing difficulties in finding insurance capacity to provide cover for them.

49. The representative of the Dakar Union said that the activities of his association included the establishment of credit insurance mechanisms in African countries, the exchange of experience and information on solvency, mutual assistance among credit insurers on loan recovery, training, and assistance to members in seeking out reinsurance for political risk. He drew attention to a feasibility study financed by EEC for the creation of a political risk reinsurance pool.

50. The representative of Malaysia stated his country's appreciation for UNCTAD's technical assistance in the area of training. The insurance sector in Malaysia had taken a long-term view by focusing on training and the development of skills. In addition to training, he highlighted the need to look into the problems faced by emerging insurance markets in obtaining reinsurance support. That was essential to enable insurance companies in those areas to provide the capacity needed in their own respective markets. He also suggested that, through the experience of ASEAN, technical cooperation on a regional basis had proved effective because of the commonality of problems and practices.

51. The representative of the African Group (Egypt) said that while there was a consensus on the necessity of accepting change, opinions differed on the transformation of the challenges ahead into development opportunities. Insurance should not be considered in isolation from the rest of the economy. Many problems had been identified in the insurance sector, but few solutions had been found so far. The North-South historical experience and the crippling effects of stagnant or retrogressing economies were being felt more so in Africa than elsewhere. Africa had recognized the need for phased and prioritized changes without losing the gains of the past or relinquishing control over emerging realities.

52. Sudden and unrestricted liberalization of the insurance industry would have devastating effects on most African countries, and the African Group therefore found it difficult to agree with paragraph 20 of document TD/B/CN.4/15. In order to cope with the strains that would follow a cautious and phased liberalization, technical assistance from UNCTAD would be necessary. Such assistance should be directed towards establishing and strengthening supervisory authorities at the national, subregional and

regional levels and building up capacity through training of managers, inter alia, through exposure to experiences in markets undergoing rapid liberalization.

53. The African Group commended the contributions of UNCTAD in respect of agricultural insurance, human resources development, insurance and reinsurance statistics, reinsurance security and collaboration with regional and subregional associations, and hoped that this cooperation would continue under the mandate of the Standing Committee.

54. The representative of the UNCTAD secretariat, presenting the report of the Group of Experts on Agricultural Insurance in Developing Countries (UNCTAD/SDD/INS/4), said that the Group of Experts had accepted and commended the study on agricultural insurance as contained in document UNCTAD/SDD/INS/1. The Group felt that agricultural insurance should be introduced in a phased manner, starting with covers of specific crops and perils, livestock, poultry and other simple risks which did not pose high exposure problems. Government support should be well defined and could progressively diminish, while there was a definite place for cooperatives and mutuals in rural and agricultural insurance. The Group of Experts had made recommendations for further work by the secretariat in its report.

55. The representative of Mauritius, speaking in his capacity as Chairman of the Expert Group on Agricultural Insurance in Developing Countries, commenting on the main conclusions of his Group, highlighted the role of reinsurance as the risk management and redistribution tool in agriculture. The study on agricultural insurance in developing countries (UNCTAD/SDD/INS/1) prepared by the UNCTAD secretariat for the meeting of the Group had been much appreciated. He stressed the importance of links between rural credit and agricultural insurance, allowing not only the development of the insurance sector but also expanding possibilities for productive investment in agriculture.